

CARL J. KUNASEK  
CHAIRMANJIM IRVIN  
COMMISSIONERWILLIAM A. MUNDELL  
COMMISSIONER

0000043425

RECEIVED

ARIZONA CORPORATION COMMISSION

2000 MAR 29 P 3:13

SECURITIES DIVISION  
1300 West Washington, Third Floor  
Phoenix, AZ 85007-2996  
TELEPHONE: (602) 542-4242  
FAX: (602) 594-7470  
E-MAIL: accsec@ccsd.cc.state.az.us

## MEMORANDUM

ARIZONA CORPORATION COMMISSION  
DOCUMENT CENTER  
DOCKETED

MAR 29 2000

TO: Chairman Carl J. Kunasek  
Commissioner Jim Irvin  
Commissioner William A. MundellFROM: Mark Sendrow *MS*  
Director of Securities

DATE: March 29, 2000

RE: In the Matter of Norman L. Paulsrud S-03322A-99-0000

CC: Brian C. McNeil, Executive Secretary

Attached is an Order to Cease and Desist and Consent to Same ("Order") executed by Respondent Norman L. Paulsrud ("Paulsrud"). The Order finds that Paulsrud engaged in conduct pursuant to A.A.C. R14-4-130(A)(4) by recommending an unsuitable investment to a client. The Order imposes a \$5,000 penalty and requires that Paulsrud henceforth comply with the Securities Act of Arizona.

In November 1998, the Division received a complaint against Paulsrud. The complaint alleged that Paulsrud sold an investor an unsuitable investment in the form of a John Hancock High-Yield Bond Fund ("HYB Fund"). The investor was an 80-year-old widow with an estimated annual income of only \$10,000. Her only investment experience was in certificates of deposit. Her investment objective was "current income."

Paulsrud transported the investor to her bank where she liquidated her certificate of deposit. In liquidating her certificate of deposit, she incurred an early withdrawal penalty. She then invested the money from her certificate of deposit into the HYB Fund.

The HYB Fund is one of six different income funds offered by John Hancock. The HYB Fund has the highest risk of all six funds. The potential for return with the HYB Fund is the greatest of all the income funds. The HYB Fund invests predominantly in lower rated and higher-yielding corporate bonds. These bonds are below investment grade and are often referred to as "junk bonds."

Shortly after the Division became involved, John Hancock rescinded the transaction and allowed the investor to retain all dividends paid while she held the investment. John Hancock also reimbursed the investor for the early withdrawal penalty she paid when she liquidated her certificate of deposit prior to the maturity date.

Paulsrud's career has primarily involved the sale of insurance products. In October 1974, he began his association with John Hancock Mutual Life Insurance Company as an insurance marketing representative. He was registered in Arizona to sell securities through John Hancock from July 1995 until his discharge from John Hancock in December 1998.

The Division believes the Order adequately addresses Paulsrud's conduct and serves the public interest by imposing a penalty and Order to Cease and Desist against Paulsrud. The Division respectfully recommends approval of this proposed Order.

Originator:           Anthony Bingham

A.G. Assigned:       Moirra McCarthy

N:\ENFORCE\CASES\PAULSRUD.PH\MEMOS\Memorandum to Commissioners.doc

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK  
CHAIRMAN

3 JIM IRVIN  
COMMISSIONER

4 WILLIAM A. MUNDELL  
COMMISSIONER

5 In the matter of

6 Norman L. Paulsrud  
7 13326 North Manzanita Lane  
8 Fountain Hills, Arizona 85268  
(CRD No. 864918)

Respondent.

) DOCKET NO. S-03322A-99-0000

) DECISION NO. \_\_\_\_\_

) **ORDER TO CEASE AND DESIST AND  
CONSENT TO SAME**

10 **I.**

11 **INTRODUCTION**

12 Norman L. Paulsrud ("Paulsrud") elects to permanently waive his right to a hearing and appeal  
13 under Articles 11 and 12 of the Securities Act of Arizona (the "Act") with respect to this Order to  
14 Cease and Desist ("Order"); admits the jurisdiction of the Arizona Corporation Commission  
15 ("Commission"); neither admits nor denies the Findings of Fact and Conclusions of Law contained in  
16 this Order; and consents to the entry of this Order by the Commission.

17 **II.**

18 **FINDINGS OF FACT**

19 1. From October 1974 through December 1998, Paulsrud was associated with John  
20 Hancock Mutual Life Insurance Company ("JHMLIC") as an insurance marketing representative.

21 2. From July 1995 through December 1998, while associated with JHMLIC, Paulsrud,  
22 CRD No. 864918, was also a securities sales representative registered in Arizona in association with  
23 John Hancock Distributors, Inc./Signator Investors Inc. ("JHDI/SII"), B/D CRD No. 468 (JHMLIC  
24 and JHDI/SII are hereinafter collectively referred to as "John Hancock").

25 ...

26 ...

1           3.       According to John Hancock's Form U-5 filing, Paulsrud was terminated in December of  
2 1998 for unauthorized placement of business with another company in violation of John Hancock's  
3 policy.

4           4.       On November 5, 1998, the Arizona Corporation Commission, Securities Division  
5 ("Division"), received a complaint alleging that in August 1997, Paulsrud sold a John Hancock High  
6 Yield Bond Fund ("HYB Fund") to an investor for whom said investment was not suitable in light of  
7 the investor's age, income, limited financial resources and investment experience.

8           5.       This investor was an 80 year old retired widow. According to her Client Profile, she  
9 had an estimated annual income of \$10,000. Her investment experience was limited to certificates of  
10 deposit. Her investment objective was current income.

11          6.       Paulsrud transported the investor to her bank where she liquidated her certificate of  
12 deposit and received a cashier's check for \$44,612.05. She then invested the money into the HYB  
13 Fund. In liquidating her certificate of deposit, she incurred an early withdrawal penalty.

14          7.       The HYB Fund is one of six different income funds offered by John Hancock. The  
15 HYB Fund is the fund with the highest risk and greatest reward potential. The HYB Fund typically  
16 invests at least 65% of its assets in lower rated, higher-yielding corporate bonds. These types of bonds  
17 are below investment grade, i.e., "junk bonds".

18          8.       In connection with the above complaint, John Hancock rescinded the purchase, allowed  
19 the investor to retain the distributions she received while she held the investment and reimbursed her  
20 the early withdrawal penalty she paid when she liquidated her certificate of deposit to purchase the  
21 HYB Fund.

22 ...

23 ...

24 ...

25 ...

26 ...

### III.

## CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to the Act, A.R.S. §§44-1801 *et seq.*, and Article XV of the Arizona Constitution.

2. Paulsrud's sale of the HYB Fund to this investor constitutes conduct pursuant to A.A.C. R14-4-130(A)(4).

#### IV.

## ORDER

THEREFORE, on the basis of the Findings and Conclusions above, and in consideration of Paulsrud's consent, the Commission issues the following Order.

1. IT IS ORDERED, pursuant to A.R.S. §44-2032, that Paulsrud CEASE and DESIST from violations of the Act.

2. IT IS ORDERED, pursuant to A.R.S. §44-2036, that Paulsrud pay an administrative penalty in the amount of Five Thousand Dollars and No Cents (\$5,000.00) by cashier's check or certified funds. Paulsrud shall pay \$1,000.00 upon entry of this Order with the balance of \$4,000.00 payable at the rate of \$1,000.00 per month for four (4) months beginning 30 days from the date of entry of this Order.

• • •

• • •

• • •

...

...

...

• • •

• • •

• • •

3. IT IS ORDERED that Paulsrud's failure to comply with any term of this Order shall constitute grounds for the revocation or suspension of Paulsrud's registration approved by the Division subject to Paulsrud's right to a hearing pursuant to the Act.

4. IT IS FURTHER ORDERED that the Order shall become effective immediately upon the date set forth below.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, Brian C. McNeil, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_ day of \_\_\_\_\_, 2000.

BRIAN C. McNEIL  
Executive Secretary

DISSENT

(AB)

This document is available in alternative formats by contacting Cynthia Mercurio-Sandoval, ADA Coordinator, voice phone number 602/542-0838, E-mail [csandoval@cc.state.az.us](mailto:csandoval@cc.state.az.us).

n:\enforce\cases\paulsrud.ph\pleading\consent order.doc

...

...

...

**CONSENT BY NORMAN L. PAULSRUD**  
**TO THE ENTRY BY THE CORPORATION COMMISSION**  
**OF AN ORDER TO CEASE AND DESIST AND WAIVER OF HEARING**

1. Respondent, Norman L. Paulsrud, an individual, admits the jurisdiction of the Arizona Corporation Commission ("Commission") over the subject matter of this proceeding, and solely, with respect to this matter, knowingly and voluntarily waives any and all rights to a hearing before the Commission and all other procedures otherwise available under the Securities Act of Arizona, A.R.S. §§44-1801 *et seq.* (the "Act"), and the Arizona Administrative Code. Paulsrud acknowledges that the accompanying Order To Cease and Desist and Consent to Same ("Order") constitutes a valid final order duly rendered by the Commission.

2. Paulsrud knowingly and voluntarily waives any right he may have under Article 12 of the Act to judicial review by any court by way of suit, appeal or extraordinary relief resulting from the entry of this Order.

3. Paulsrud acknowledges and agrees that this Order is entered into freely and voluntarily and that no promise was made or coercion used to induce Paulsrud to enter into it.

4. Paulsrud acknowledges that he has been represented by counsel in this matter, he has reviewed this Order with his attorney and understands all terms and obligations contained herein.

5. Paulsrud consents to the entry of this Order and agrees to be fully bound by its terms and conditions. Paulsrud further acknowledges that should he fail to comply with any and all provisions of this Order, the Commission may impose additional sanctions and costs and seek other appropriate relief subject to Paulsrud's right to a hearing pursuant to the Act.

6. Paulsrud acknowledges that this Order resolves only alleged administrative violations of the Act and that nothing contained in the Order purports to resolve any other issues which may exist between Paulsrud and the State. Nothing in the Order shall be construed to restrict the State's right in a future proceeding to bring an action against Paulsrud from or related to facts not set forth in the Order.

7. Paulsrud acknowledges that he has been informed and understands that the Commission or its designee, at the Commission's sole and exclusive discretion, may refer this matter, or grant access to any information or evidence gathered in connection with this matter, to any person or entity having appropriate administrative, civil or criminal jurisdiction. Paulsrud acknowledges that no representations regarding the above have been made so as to induce him to enter into this Order, including the fact that no promise or representation has been made by the Commission or its designee or staff with regard to any potential criminal liability or immunity from any potential criminal liability.

8. Paulsrud neither admits nor denies the Findings of Fact and Conclusions of Law contained in the Order.

9. This Order represents the complete and final resolution with respect to all administrative or civil claims and causes of action by the Commission against Paulsrud for violations of the Act arising out of the facts set forth in this Order, and is in lieu of any further administrative or civil proceedings based on facts known to the Commission at this time.

*Norman L. Paulsrud*  
NORMAN L. PAULSRUD

SUBSCRIBED TO AND SWORN BEFORE me this 15<sup>th</sup> day of March, 2000, by  
NORMAN L. PAULSRUD.



My Commission Expires: \_\_\_\_\_